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SIPDIS

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SENSITIVE
SIPDIS

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SUBJECT: TURKEY'S TEXTILE INDUSTRY GAINING IN EU, LOSING IN U.S.

REF: A) STATE 114799, B) ANKARA 757

ANKARA 00002442 001.2 OF 003

11. (SBU) Summary: While overall Turkish exports of apparel increased 15.4% in 2006, government and industry officials are concerned about the continued drop in exports to the U.S., which fell by 26% in 2006. The textile and apparel sectors in Turkey comprise close to 7.8 percent of total GDP and 18.7 percent of its manufacturing output, and employ an estimated 2 million people countrywide (although over 1 million of those are reportedly unregistered). Turkey's European Customs Union membership and EU safeguards against China have enabled it to remain competitive in the EU market and increase its exports of textiles and apparel. U.S. safeguards against China, however, have done little to slow Turkey's rapid loss of U.S. market share. Turkey continues to develop its high-end, haute couture image and knows it must continue to adapt and market itself globally if it wishes to remain competitive in the post-2008 market. End Summary.

After the safeguards expire, other measures likely

12. (SBU) Turkish industry and government officials are beginning to gain a clearer picture of the post-Multi-Fiber Agreement textile and apparel market. Turkey was the first country to implement safeguard measures against China in 2005 following the end of the Multi-Fiber Agreement, and will keep measures in place for 44 products until the law permitting them expires at the end of 2008. After that, officials at the Turkish Foreign Trade Undersecretariat's (FTU) Imports Department told us they will take the cue from industry on what to do next, possibly using anti-dumping or other trade protection measures.

13. (SBU) While official State Planning Organization (SPO) figures show that Turkey's textile and apparel sectors employed approximately 1 million in 2006, government and industry officials estimate over 1 million employees are unregistered, bringing the total employment in these sectors to just under 2 million, approximately 21 percent of total registered and unregistered industrial employment. The sectors account for 7.8 percent of total GDP and 18.7 percent of total manufacturing output. Currently, there are 44,000 registered companies operating in the sectors, and their total production in 2006 was approximately 16.8 billion USD.

Companies staying in Turkey, but moving location

14. (SBU) According to Suleyman Orakcioglu, Deputy Chairman of the Turkish Exporters Council (TIM) and President of the Istanbul Ready-Made Garments Exporters Association (ITKIB), the flight of Turkish textile and apparel companies to other countries (such as Jordan and Egypt, who have Qualified Industrial Zones (QIZs) that include some textile products) has slowed, but companies are moving their factories from Istanbul, with its high labor and production costs, to the southeastern region of Turkey, where costs are cheaper. One area that has seen rapid growth in the textile sector is Adiyaman, where the Turkish government offers incentives for companies establishing factories. According to Orakcioglu, there are currently 87 factories and 9,000 registered workers in the textile and apparel industry in Adiyaman.

15. (SBU) Orakcioglu appealed to us for renewed consideration of a Turkish QIZ (an appeal not echoed by the FTU Exports DDG, who was also in the meeting, and said he had long ago "given up."). We explained to him the political and domestic sensitivities to expanding QIZs, in addition to the required Congressional approval. We asked him to work with us to think of new ways to increase Turkey's textile and apparel exports to the U.S. instead of repeatedly appealing for something so difficult to accomplish.

Targeting the next generation and keeping it green

16. (SBU) Turkish industry also is working to educate the next generation of textile and apparel makers, in an effort to maintain Turkey's high standards and experienced labor market for the sector. Currently, 75,000 high school and university students are enrolled in vocational programs focused on textile and apparel production and design. In addition, the industry continues to push for and also comply with western standards for product safety. Orakcioglu mentioned the problems faced recently in the U.S. because of unsafe products exported from China and told us that Turkey outlawed the

ANKARA 00002442 002.2 OF 003

use of certain chemicals in textile and apparel production over 12 years ago. "Hopefully Americans will begin to realize the danger of relying so heavily on China for inexpensive products," FTU Exports Deputy Director General Ziya Altunyaldiz added, "and agree to pay more for safer and higher quality goods from other suppliers such as Turkey."

EU exports growing; U.S. exports dropping

17. (SBU) According to FTU figures, Turkish exports of apparel increased 15.4% in 2006. 80% of Turkey's apparel exports go to the EU, 13% goes to other markets, and about 7% (down from a 10% share in 2004) goes to the U.S. For textiles, about 60% of exports go to the EU. Turkey's membership in the European Customs Union has enabled it to remain competitive in that market, and exports have continued to increase even after the end of the Multi-Fiber Agreement. Industry and government officials say that the Customs Union's low tariffs (3 - 5% on textiles and apparel) enable them to maintain their market share.

18. (SBU) Turkey's experience in the U.S. however, is not so positive. Textile exports to the U.S. rose by 22% in 2003, but with the end of the Multi-Fiber Agreement, its exports remained the same in 2004, decreased by 4% in 2005, and by 22% in 2006. Six month figures for 2007 show the same trend, with a further 20% decrease. Apparel exports to the U.S. followed the same pattern, with a 21% decrease in 2005, and a 26% decrease in 2006. Altunyaldiz hesitated when asked about six month figures for 2007, which show a slight increase from \$287 million for the same period in 2006, to \$303 million. "I don't know how to explain this," he added, "and we'll wait to see the final year numbers before speculating."

19. (SBU) One possible reason for this increase could be the preference of U.S. consumers for high-end goods. Turkish industry officials have always emphasized its competitiveness in high-quality, haute couture apparel. In addition, home textile manufacturers in Denizli told us in December 2006 (ref B) that they

lost business after the end of the Multi-Fiber Agreement from U.S. retailers such as Victoria's Secret. However, U.S. high-end home textile retailers such as Pottery Barn, Williams-Sonoma and Restoration Hardware returned to them a year later for towel and other home textile production after discovering that U.S. consumers will not pay the same amount for a kitchen or bath towel "Made in China" or "Made in India." Orakcioglu said that this trend is evident in the apparel sector as well. While Turkey has lost much of its low-cost, high-volume apparel production to China and India, it is producing more high-end items and making the same profit with the production of fewer items at a higher cost.

Competitiveness still in question

110. (SBU) It is still too early to tell whether or not Turkish industry will remain competitive after 2008 when safeguard measures against China will expire. Turkey's European Customs Union membership likely will keep it competitive in that market, but its fate in the remainder of the global economy will depend on industry's ability to plan and adapt to increased competition. The recent Chinese import recall crisis in the U.S. could turn U.S. consumers to other suppliers in the short-term, but long-term it should not have a significant impact on China as a lower cost supplier. Turkey must continue to brand itself as a high-end competitor and increase its global marketing, instead of pushing for unlikely political solutions, if it wishes to compete in the post-2008 global market.

Statistics

- Total industrial production USD: 103.0 billion
- Total textiles and apparel production in USD: 16.8 billion
- Textile/apparel share of Turkey's imports: (2006) 5.32 percent; (2007 Jan-July) 5.17 percent
- Textile/apparel share of Turkey's exports: (2006) 23.1 percent; (2007 Jan-July) 22.0 percent
- Textile/apparel exports to U.S. in 2006 in USD (year on end):

ANKARA 00002442 003.2 OF 003

1.2 billion (For the period ending June 2007, 515.5 million, down 15.0 percent from the same period in 2006).

- Total registered manufacturing employment: 4.5 million
(Note: Official sectoral employment figures are grossly understated due to Turkey's large unregistered economy, which many estimate at close to 50 percent of GDP. End note.)

-- Total registered textiles employment (2006): 371,528 registered employees

-- Total registered apparel employment (2006): 430,778 registered employees.

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